

2019 Economic Diversity

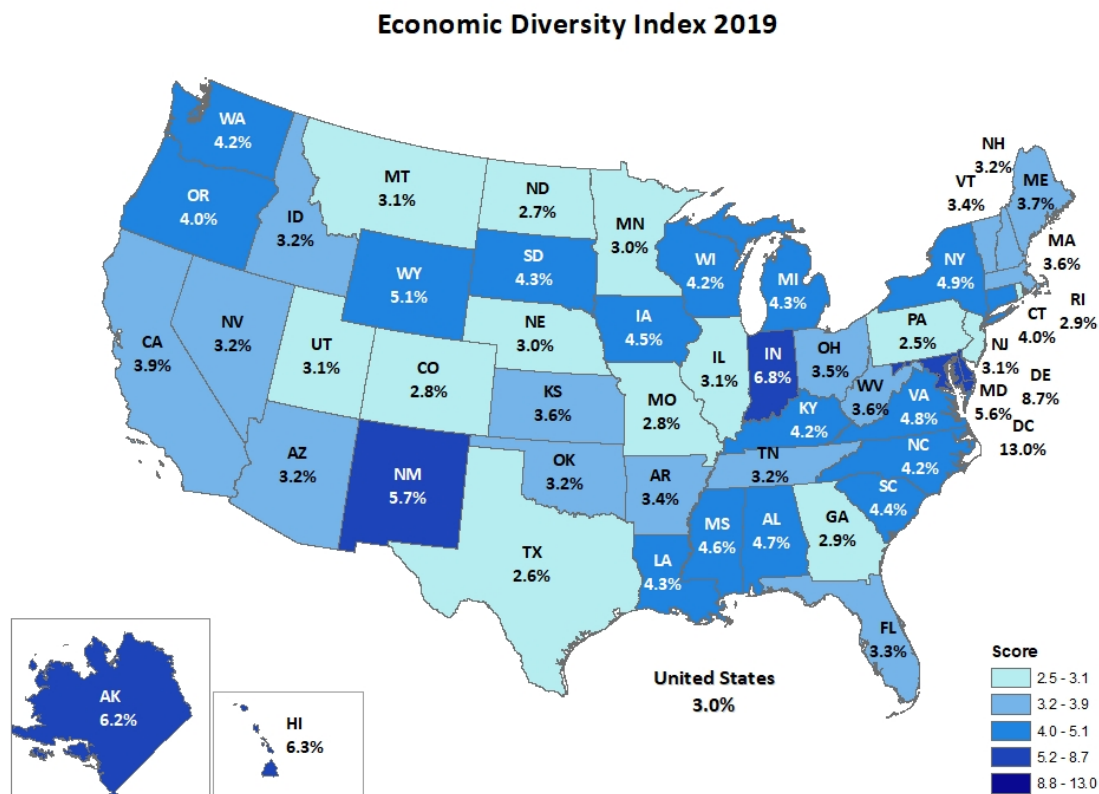
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Diversification Index

A diversified economy has a variety of industries that can manage fluctuations in the business cycle. By contrast, a less diversified economy specializes in only a few industries. A state economy with a disproportionate number of workers in one specific industry would suffer should that industry fall on hard times. Whereas, a diversified economy is more balanced, capable of absorbing an economic shock through the variety of other industries present. If a shock were to occur, other industries would help to compensate for the loss by maintaining economic stability for that state.

In 2019, Missouri ranked fourth in the index¹ for economic diversity, up two ranks from the previous year. Pennsylvania was the most diversified state, followed by Texas, North Dakota, Colorado, and Rhode Island. The map below shows each state's 2019 score. States with the most diverse economies scored the lowest.



The lower a score, the more diversified a state's economy; the higher a score, the more specialized its economy.

Source: Bureau of Economic Analysis

Gross Domestic Product

The broadest measure of economic activity is the gross domestic product (GDP).² The GDP by industry was measured against total state gross product by calculating each state's diversification index.

The Bureau of Economic Analysis released its latest annual GDP by state estimates in the fourth quarter of 2020, indicating that Missouri's total GDP increased from \$284.7 billion in 2018 to \$287.6 billion in 2019 in real terms representing 2012 chained dollars, adjusted for inflation. The state's top five industries, not including *Government*, are *Manufacturing* (12.2% of total GDP); *Real Estate, Rental, and Leasing* (10.9%); *Health Care and Social Assistance* (9.3%); *Finance and Insurance* (8.0%); and *Professional, Scientific, and Technical Services* (7.2%).

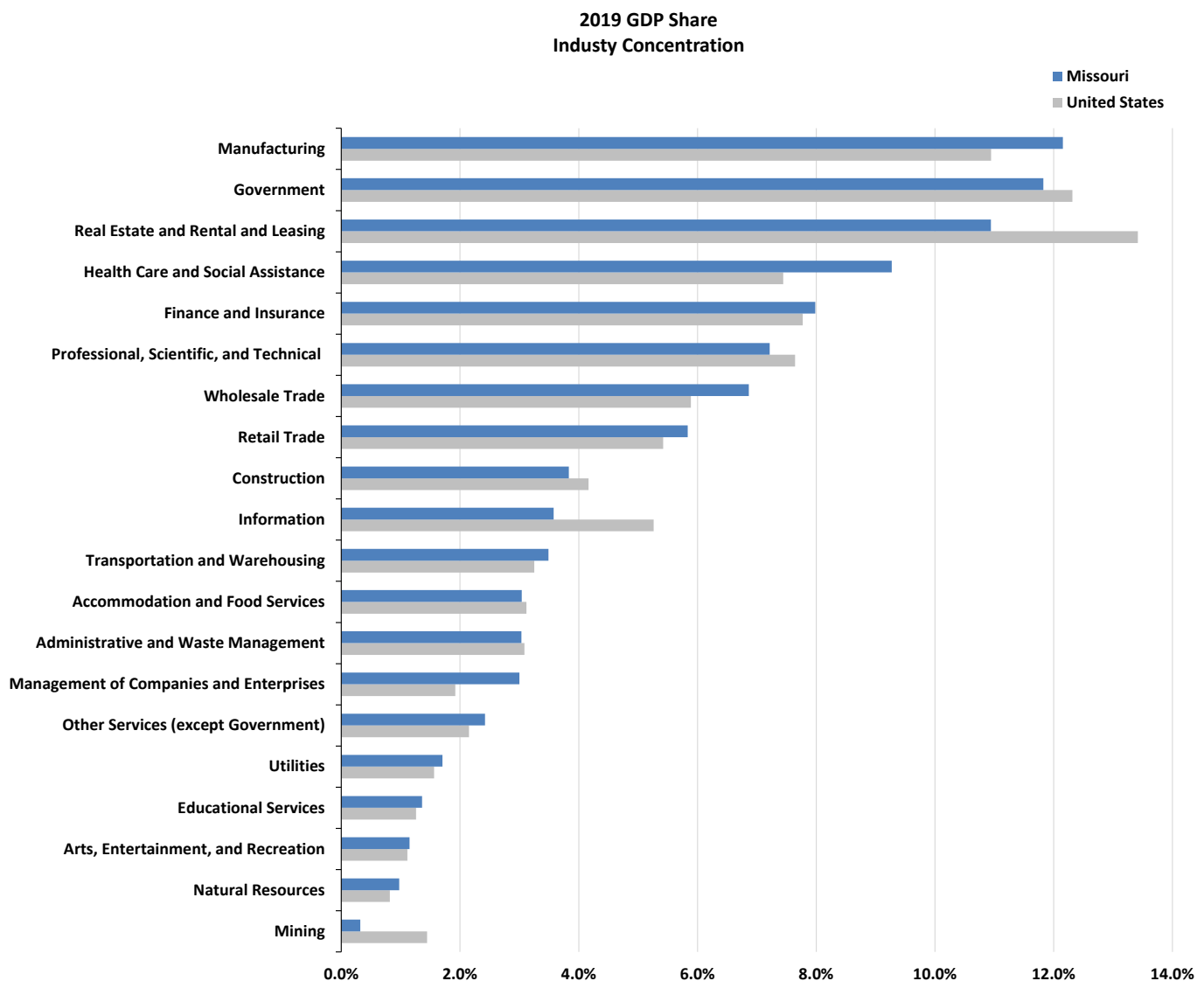
Service sectors that experienced growth between 2018 and 2019 include *Wholesale Trade*, which grew from 6.6 to 6.8 percent; *Natural Resources, Government* and *Construction* each grew by 0.2 percentage points as well. Sectors that experienced a minor decline include *Information*, which decreased from 4.0 to 3.6 percent; *Real Estate, Rental, and Leasing* decreased by 0.2 percentage points, as did *Finance and Insurance. Management of Companies and Enterprises, Manufacturing*, and *Transportation and Warehousing* each dropped 0.1 percentage points.

Missouri Industry GDP Share			
Industry	2019	2018	Change from 2018-2019
Manufacturing	12.2%	12.2%	-0.1%
Government	11.8%	11.7%	0.2%
Real Estate, Rental, and Leasing	10.9%	11.2%	-0.2%
Health Care and Social Assistance	9.3%	9.2%	0.1%
Finance and Insurance	8.0%	8.2%	-0.2%
Professional, Scientific, and Technical	7.2%	7.1%	0.1%
Wholesale Trade	6.9%	6.7%	0.2%
Retail Trade	5.8%	5.8%	0.0%
Construction	3.8%	3.7%	0.2%
Information	3.6%	4.0%	-0.5%
Transportation and Warehousing	3.5%	3.5%	-0.1%
Accommodation and Food Services	3.0%	2.9%	0.1%
Administrative and Waste Management	3.0%	3.0%	0.0%
Management of Companies and Enterprises	3.0%	3.1%	-0.1%
Other Services (except Government)	2.4%	2.4%	0.1%
Utilities	1.7%	1.7%	0.0%
Educational Services	1.4%	1.3%	0.1%
Arts, Entertainment, and Recreation	1.2%	1.1%	0.0%
Natural Resources	1.0%	0.8%	0.2%
Mining	0.3%	0.3%	0.0%

Source: Bureau of Economic Analysis

State Industry Concentration

Industry concentration is another measurement based on industry GDP share analysis. The chart below compares the same industries across Missouri and the United States to help identify state-level industry concentrations. Three industries in particular have significantly higher GDP share concentrations in Missouri than the United States: *Health Care and Social Assistance*, *Manufacturing*, and *Management of Companies and Enterprises*. Other concentrations in Missouri that have higher rates than the national average include *Wholesale Trade*, *Finance and Insurance*, *Retail Trade*, *Transportation and Warehousing*, *Other Services (except government)*, *Utilities*, *Natural Resources*, and *Educational Services*.



Source: Bureau of Economic Analysis

Notes:

¹Diversification Index

There are a handful of indices available to measure an economy's diversification: Herfindahl, Hachman, and competitive share among others. Data used to construct an index may include employment, earnings, per capita income, capital investment, or gross domestic product. In this brief, a modified Herfindahl Index (H_i) based on gross domestic product data was constructed.

$$H_i = \left\{ \sum_{i=1}^n \frac{1}{n-1} \times \left(\left(\frac{GDP_i}{GDP_s} \right) - \left(\frac{1}{n} \right) \right)^2 \right\} * 100$$

Where **n** is the number of industries in the state economy, and **GDP** is the gross domestic product for each industry (**i**) in the state, and **GDP_s** is a state's total gross domestic product. The number of industries (**n**) analyzed in each state (**s**) is constant. Thus, the analysis focuses on the distribution of GDP. Those states with an index value closer to 0 are more diversified.

²Gross Domestic Product

A state's gross domestic product (GDP) is estimated by the U.S. Bureau of Economic Analysis. This estimate is the sum of value-added from each industry in the state for a given time period. Value-added is effectively an industry's net revenue: income minus costs of production.

Data Sources: This report uses annual data from the Bureau of Economic Analysis where there is a time-release lag to ensure all data is reported in from various sectors and geographic locations.

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